



# KBKG TAX INSIGHT: NEBRASKA LEGISLATORS CONSIDER RESEARCH OR EXPERIMENTAL EXPENDITURES FULLY DEDUCTIBLE

*Authors: Michael Maroney*

Earlier this month, Nebraska State Senator Brett Lindstrom introduced [Legislative Bill 827](#) allowing taxpayers to fully deduct research or experimental (R&E) expenditures in the year in which they were paid or incurred. Beginning January 1, 2022, federal law under IRC Section 174 requires federal taxpayers to charge these expenses to a capital account and amortize them over 5 years if these are domestic R&E expenditures or over 15 years if these expenditures are for research activities occurring outside the United States.

There has been much criticism of the change in federal tax treatment of these expenditures, since eliminating the ability to immediately fully deduct the expense in the year in which it was paid or incurred delays the tax benefit received from the expenditure. Nebraska's intent appears to be to decouple from the federal law with this new bill. Nebraska taxpayers have the opportunity to take advantage of the federal and state R&D tax credits for activities meeting the requirements of IRC §41 (To be eligible for R&D Tax Credits, research activities must meet the

## KBKG SERVICES

- Research & Development Tax Credit
- Cost Segregation
- Repair vs. Capitalization Review
- Fixed Asset Review
- 45L Credits for Energy Efficient Residential Developments
- 179D Incentive for Energy Efficient Commercial Buildings
- Transfer Pricing
- IC-DISC

criteria in the IRS [Four-Part Test](#)). The tax credits are available for expenditures including:

- Wages paid to an employee performing research activities conducted at a facility in Nebraska
- Wages paid to any employees directly supporting or directly supervising an employee performing research activities conducted at a facility in Nebraska
- Supplies used or consumed while performing research activities at a facility in Nebraska
- A portion of 3rd party research conducted in Nebraska

## **KBKG INSIGHT**

*Qualifying research activities may be present in a multitude of different industries including, but not limited to manufacturing, software development, architectural and engineering design, and agriculture.*

## **OPPORTUNITY**

Should this bill pass, Nebraska taxpayers have an opportunity to continue fully deducting their R&E expenditures occurring in the state immediately, as well as claim the state research and development tax credit. Also, remember that the federal R&D credit was made permanent as part of the PATH Act of 2015, and it may be claimed in addition to the state credit.

*To learn more about the R&D Tax Credit, [contact our experts](#).*

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## **About the Author**



### **Michael Maroney - Director [Midwest](#)**

Michael Maroney is a Director with KBKG at our [Chicago, IL office](#). He advises clients on tax matters related to federal and state [R&D tax credits](#). He has advised numerous Fortune 1000 clients across a variety of industries. He has successfully defended his client's R&D claims before the IRS and state taxing authorities. He has been an instructor on these topics for numerous CPA and industry associations and has authored articles related to federal and state R&D tax credits. » [Full Bio](#)

